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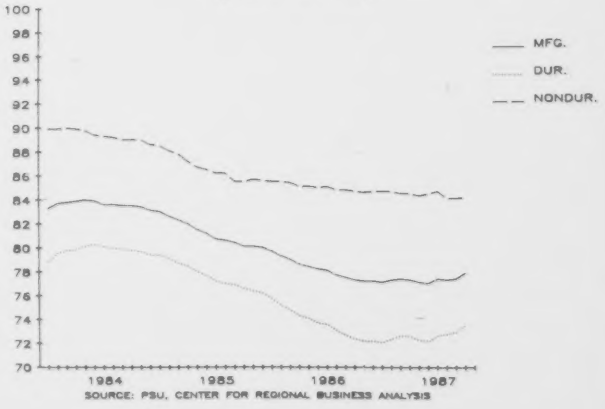
QUALIFIED OPTIMISM WITH RESPECT TO THE PA ECONOMY

All things considered, **the results posted by the Pennsylvania economy during October were fairly impressive** as gains were reported on just about every front. Most indicators suggest that the Commonwealth is following up a relatively sluggish first half of 1987 with some more positive news so far in the second half. Still, the uncertainty at the national level and the disparity in growth in Pennsylvania across regions and industries act to cool at least a portion of the optimism.

Some of this disparity may be lessening, at least with respect to the manufacturing/nonmanufacturing picture, as **the number of workers on payroll in the State's manufacturing establishments is showing slight upward movement**. Specifically, job levels have risen in each of the past two months and in three of the past four to stand at slightly over 1.04 million, seasonally adjusted, for the first time in more than a year. Of special note is the fact that durable goods showed a solid gain of 5,300 jobs during the month, even after adjusting for seasonality (see chart). While this may be only a temporary development, it is nonetheless welcome news, but only time will tell if our optimism is premature. Given that the nation as a whole has already turned the corner with respect to manufacturing jobs, this may well be the start of a similar trend in Pennsylvania. At the least, one may feel confident in stating that the bulk of manufacturing job losses are behind us.

Other indicators of manufacturing's health tracked by the Center for Regional Business Analysis also point to some firming in the sector. Steel production rose for the eighth consecutive month, though by only 100 tons on an average daily basis, the smallest gain over that period. At a seasonally adjusted 40,300 net tons, average daily production in the Commonwealth's mills was at its highest level since the first half of 1984. The good news as of late coming from the steel industry is also reflected in Pennsylvania's share of U.S. production which, at 14.4 percent, was at its highest level since April 1985. Sales of electricity on the part of Pennsylvania's utilities to industry also rose, providing additional evidence of a solid showing on the part of the State's goods-producing industries. Although the historical positive relationship between the average workweek and manufacturing job levels may have broken down (see the August 1987 *Survey*), at least temporarily, the second highest workweek on record, 41.2 hours on a seasonally adjusted basis in October, if anything, will help prop up job levels in the near future.

PA MANUFACTURING JOBS
(1977 = 100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS

The good news coming from the manufacturing sector, should, however, be qualified a bit. Several factors pointed out many times in the past will help hold down job advances, such as intense foreign competition, and for that matter, competition from other states, productivity improvements on the part of labor, and efforts to hold down costs on the part of producers. In essence, **should our manufacturers regain at least some of their health, it is doubtful that job levels will rise proportionately.**

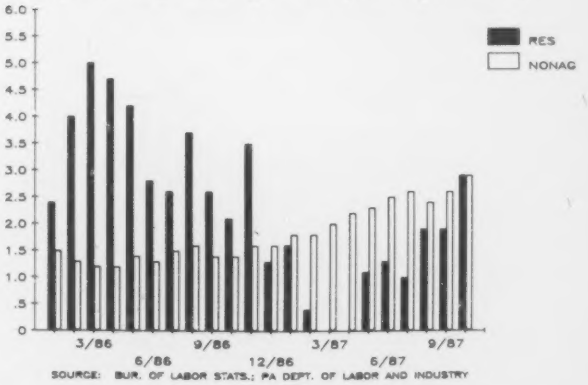
Elsewhere in the economy, **the situation remains encouraging in the nonmanufacturing sector.** The number of jobs held steady or rose during October on a seasonally adjusted basis in each of the ten broad industry classifications which are tracked by the Center. The correction expected in the State and local government sector based upon an especially strong showing in September (see the November *PBS*) did not occur, at least during October, as job levels rose by a seasonally adjusted 5,100 to 547,000. The largest gain was turned in by the services industry which added 9,000 positions during the month after adjusting for seasonality. Nonmanufacturing's job gains, at a seasonally adjusted 20,300 for the month, alongside manufacturing's encouraging performance helped push total nonagricutural job totals up to 4.97 million, another record high.

Similar trends are evident with respect to resident employment trends as the number of Pennsylvanians counted as employed rose by about 40,000 on a seasonally adjusted basis

to settle at 5.4 million, the first time this level has been reached. The resident labor force also rose to a record high during the month, resulting in a slight uptick in the number of unemployed and the jobless rate. However, for the most part, these changes were quite small, and, given another month of little or no change in the data in November, **most signals point to an employment picture holding fairly steady, albeit with near-record numbers of workers.**

As shown in the accompanying chart, there have been some rather obvious discrepencies in the signals being emitted by the two series of data most often cited in gauging employment trends: the resident employment and nonagricultural jobs series. Throughout 1986, the annual growth in the resident employment series was much more pronounced than the growth in nonagricultural jobs. However, that pattern re-

PA RESIDENT EMPLOYMENT AND NONAGRICULTURAL JOB GROWTH, JAN. 1986-OCT. 1987
(percentage change from year-ago month)



SOURCE: BUR. OF LABOR STATS.; PA DEPT. OF LABOR AND INDUSTRY

Economic Activity in Pennsylvania	UNADJUSTED DATA 1987 Sept.	UNADJUSTED DATA 1987 Oct.	UNADJUSTED DATA 1986 Oct.	SEASONALLY ADJUSTED DATA 1987 Sept.	SEASONALLY ADJUSTED DATA 1987 Oct.	SEASONALLY ADJUSTED DATA 1986 Oct.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1987 Sept.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1987 Oct.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1986 Oct.
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,972*	5,016	4,873	4,941*	4,967	4,816	108.2*	108.8	105.5
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,923*	3,967	3,823	3,902*	3,922	3,778	121.0*	121.7	117.2
Mining	32	32	33	31	31	33	63.7	65.0	67.9
Contract construction	245	244	224	228	228	208	124.0	124.1	113.3
Transportation	140	143	142	137	139	138	85.4	86.2	85.9
Public Utilities	106*	106	102	106	106	102	104.9	104.8	101.5
Wholesale trade	275*	277	263	274	276	262	123.8	124.5	118.3
Retail trade	879	885	851	875	876	842	121.9	122.1	117.4
Finance, insurance & real estate	289	289	281	288*	289	281	132.4	133.0	129.3
Service & miscellaneous	1,287*	1,299	1,241	1,281*	1,290	1,232	148.5	149.6	142.8
Federal government	141	141	137	142	142	138	110.6	110.4	107.9
State & local government	529*	553	548	542*	547	542	93.0	93.9	93.1
Manufacturing									
No. of wage and salary jobs (thous.)	1,045*	1,047	1,040	1,039*	1,045	1,038	77.4*	77.9	77.3
Durable goods	594	596	586	591	596	586	73.0	73.6	72.4
Nondurable goods	452*	451	454	447*	448	451	84.1*	84.2	84.7
Ave. wkly. hrs. worked by prod. workers	40.8*	41.1	40.3	40.7	41.2	40.4	102.9	104.2	102.2
Total wkly. person-hours worked (mils.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total wkly. payroll (mil. dols.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Steel production (thous. tons)	1,047	1,163	616	n.a.	n.a.	n.a.	57.2	57.4	30.5
Industrial electric power sales (mil. kwh)	3,762	3,876	3,471	3,732	3,861	3,454	101.1	104.5	93.5
Mining									
Anthracite coal (thous. net tons)	281	n.a.	333†	261	n.a.	313†	53.4	n.a.	64.0†
Bituminous coal (thous. net tons)	5,668	n.a.	5,053†	5,145	n.a.	4,597†	72.9	n.a.	65.2†
Construction contracts awarded (mil. dols.)									
Total	831.0	891.7	744.3*	801.0	834.8	680.4*	249.0	259.5	211.5*
Residential building	342.8	395.9	364.6*	339.8	362.9	322.7*	241.4	257.8	229.3*
Nonresidential building	312.3	349.2	229.0*	268.9	286.0	171.9*	247.9	263.7	158.5*
Nonbuilding (utilities and public works)	176.0	146.5	149.9*	192.3	185.9	185.8*	265.3	256.4	256.4*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,411	5,480	5,325	5,362	5,403	5,246	111.6	112.4	109.2
Unemployed									
No. of persons (thous.)	297	307	325	316	337	356	78.9	84.0	88.7
Rate (percentage of labor force)	5.2	5.3	5.8						
Rate, seasonally adjusted				5.6	5.9	6.3			
Civilian labor force, no. of persons (thous.)	5,708	5,787	5,650	5,678	5,740	5,602	109.1	110.2	107.6
Initial claims for unemployment benefits	61,714	69,330	94,980	78,832	73,990	101,263	55.1	51.7	70.7

Consumer Prices, all items	Urban Indexes (1967 = 100) 1987 August	1987 September	1986 September	Percentage Change Month Ago	Year Ago
U.S. city average	344.4	345.3	330.5	+0.3	+4.5
Philadelphia	342.8	344.1	324.7	+0.4	+6.0
Pittsburgh	n.a.	344.1	331.8	n.a.	+3.7

[1] Total includes workers on strike. * = figure revised † = figure for September 1986 n.a. = data not available

SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

GNP and Pennsylvania employment growth over recent business cycles (average annual percent changes)

	PA employment	GNP
12/70–11/73 recovery	1.4	4.7
12/73–3/75 recession	−1.7	−3.5
4/75–1/80 recovery	1.5	4.2
2/80–7/80 recession	1.2	−2.5
8/80–7/81 recovery	0.8	3.1
8/81-11/82 recession	−2.8	−1.8
12/82-pres. recovery	2.3	4.2

Source: U.S. Dept. of Commerce; Center for Regional Business Analysis

versed itself in 1987. Explanations for these different growth patterns vary, but several factors may be put forth as possible explanations. Clearly, the resident data are considerably more volatile, causing distortions in examining changes. As an aside, the relative lack of volatility shown on the part of the nonagricultural job series may add credence to the belief of many that this is the more reliable series of the two. A recent article in *Business Week* touched upon recent gains in the resident data at the national level, an explanation that may fit the Pennsylvania picture also as the "growth" gap between the two series has narrowed over the past few months. The author of that article contends that as the economy has strengthened, job holders have found full-time positions more plentiful. Whereas, for instance, a given individual may have held two part-time jobs and hence been counted twice in the nonagricultural data and once in the resident data, his or her acceptance of a full-time job, where he or she would only be counted once in both series, reduces the differences in growth.

Recent behavior in both the leading and coincident indexes have been fairly positive. The leading index rose for the fifth time in the past six months while the index of coincident indicators turned in its second consecutive gain and has not declined since June.

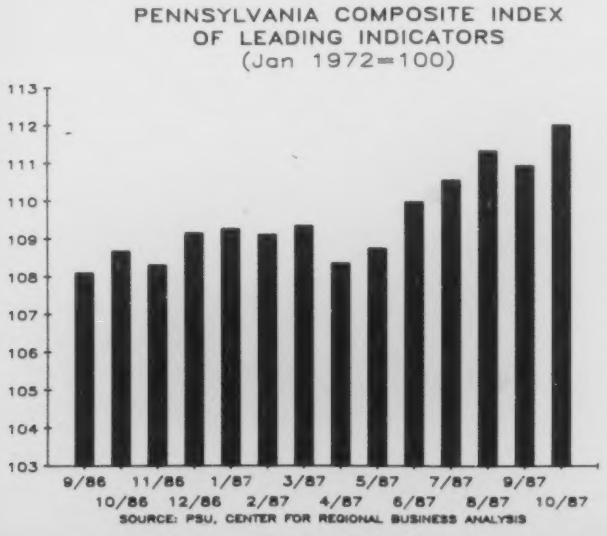
Several recent issues of the *Survey* have cautioned against getting too excited about the Commonwealth's economic fortunes by emphasizing the fact that the health of Pennsylvania's economy is extremely dependent on the health of the the nation's economy. As the accompanying table shows, employment growth in Pennsylvania, one of the better indicators of the economy's health, is heavily influenced by the national business cycle. Except for the very brief recession in 1980, **it is quite apparent that Pennsylvania employment growth varies positively with the U.S. business cycle**, as measured by the change in gross national product.

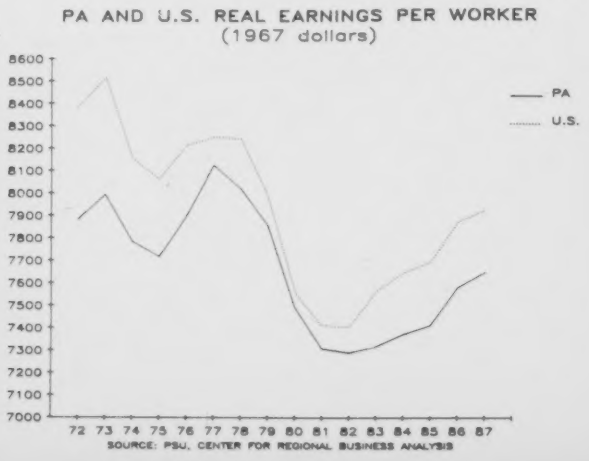
— *William D. Anderson*

Personal Income Report

For the first time in several quarters, the news on the personal income front was somewhat positive during the April-June period of this year in Pennsylvania. Total personal income rose 2 percent on a quarterly basis and 6 percent from the year ago period to settle at $178.6 billion. These gains compare favorably with the 1.2 and 5.1 percent advances recorded at the national level. Much the same may be concluded with respect to trends in nonfarm personal income. However, it is best not to get too excited. Second quarter represents the first time since the first quarter of 1975 that the annual gain in Pennsylvania personal income has been larger than in the U.S. Additionally, the quarterly gain was stronger than the nation's for only the sixth time in the past five years. Hence, more evidence is needed to establish a welcome trend.

We may sound another note of caution by looking at trends in real income, specifically, trends in real earnings per worker. Although this measure of real income falls short of being perfect, it is perhaps the best and most timely available. Recent trends in this indicator suggest that real income is on the rise. Indeed, it has risen, albeit sporadically, on an annual basis in each quarter over the past four years. However, real per worker earnings still trail readings maintained over





the 1972-1979 period. Furthermore, real per worker earnings in Pennsylvania, as shown in the accompanying chart, have consistently trailed national readings and the gap appears to have widened over the course of the current economic recovery which began in 1982 and 1983.

Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. ago	Pct. change Yr. ago	Nonfarm personal income	Pct. change Qt. ago	Pct. change Yr. ago
1987:IIQ	178,564	2.0	6.0	177,126	1.9	5.8
1987:IQ	175,019	1.7	5.3	173,845	1.6	5.1
1987 YTD	176,792	n.a.	5.6	175,486	n.a.	5.4

Source: U.S. Dept. of Commerce, Bur. of Econ. Analysis

Retail Sales Report

It was approximately a year ago that most economists were predicting more cautious spending patterns on the part of consumers at the national level because of historically high debt burdens. However, at least according to the retail sales data, which, it should be pointed out, are far from perfect, this has not been the case for most Pennsylvanians as trends remained positive during this year's third quarter in the Commonwealth. All told, sales grew 7.3 percent from the year ago quarter to settle at $18.6 billion. So far this year, sales have advanced at a 6.9 percent clip. As has been the case for the past several quarters, growth in retail sales was stronger in Pennsylvania than in the nation as a whole. Third quarter's gains were spread across both the durable (up 11.2 percent) and nondurable goods (up 5.8 percent) categories.

Pennsylvania retail sales (millions of dollars)

	Retail sales	Pct. change from yr. ago	Durable goods	Pct. change from yr. ago	Nondur. goods	Pct. change from yr. ago
1987:IIIQ	18,602	7.3	7,349	11.2	11,353	5.8
1987:IIQ	18,374	8.3	6,944	11.7	11,430	6.4
1987 YTD	52,520	6.9	19,557	11.0	33,063	4.8

September data is preliminary.
Source: U.S. Dept. of Commerce, Bureau of the Census

Although the retail sector remains a strong point in a Pennsylvania economy showing new signs of strength, there are concerns as to the future course of events. We will have to wait to see if these concerns, which are closely linked with Wall Street's well-publicized problems, prove to be legitimate or are another false alarm.

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